

**BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND**

<b>THE NARRAGANSETT</b>	)	<b>DOCKET NO. 3707</b>
<b>BAY COMMISSION</b>	)	

**SURREBUTTAL TESTIMONY  
OF  
THOMAS S. CATLIN**

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**MARCH 2006**

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**EXETER**

ASSOCIATES, INC.  
5565 Sterrett Place  
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THE NARRAGANSETT ) DOCKET NO. 3707  
BAY COMMISSION )

## Introduction

Q. HOW IS THE REMAINDER OF YOUR SURREBUTTAL TESTIMONY ORGANIZED?

1 A. The remainder of my surrebuttal testimony is organized into sections corresponding to  
2 the issue or topic being addressed. These sections are set forth in the table of contents for  
3 this testimony.  
4

5 **Interest Income**

6 Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO INTEREST  
7 INCOME?

8 A. Based on NBC's rebuttal testimony and the responses to the Division's follow-up  
9 discovery, I am accepting NBC's proposed level of interest income for the rate year. I  
10 have accepted this estimate out of concern that including interest income from the  
11 restricted debt service/capital account could be regarded negatively by bondholders. In  
12 addition, it appears that much of the FY 2005 interest was interest earned on unspent  
13 bond proceeds and that the ongoing interest level in the rate year will be much lower.  
14 Hence, I have concluded that the level of interest income in the rate year does not warrant  
15 pursuing this issue in the current abbreviated rate filing. I do recommend that this issue  
16 be examined more fully in NBC's next base rate filing.  
17

18 **Union Pension Expense**

19 Q. DID MR. EDGE ACCEPT YOUR ADJUSTMENT TO UNION PENSION  
20 EXPENSE?

21 A. Partially. Mr. Edge accepted that portion of my adjustment related to recognizing that the  
22 final contribution rate for FY 2007 was higher than the preliminary rate used in NBC's  
23 direct filing, thereby increasing rate year expense. However, Mr. Edge rejected my  
24 adjustment to recognize that a portion of that increase in pension costs is capitalized. As

1 support, he stated that I may not have been aware that none of the 13.9 FTEs (full time  
2 equivalents) charged to CIP projects are union personnel.

3 Q. WHAT IS YOUR RESPONSE?

4 A. In developing my original adjustment, I treated 9.5 percent of the increase in union  
5 pension costs as charged to construction (capital projects) based on the composite  
6 percentage for all benefits costs. This is common practice when adjusting test year  
7 results for projected changes. I still consider my original adjustment reasonable.  
8 However, in light of Mr. Edge's criticism of my approach, I have revised my calculation  
9 of the portion of rate year benefits costs capitalized versus the portion of those costs  
10 charged to O&M expense.

11 Q. WHAT CHANGES ARE YOU PROPOSING TO MAKE?

12 A. I am proposing to make two modifications to the calculation of benefits costs capitalized.  
13 First, I have updated the percentage of benefits charged to construction to reflect actual  
14 experience. Second, I have revised the percentage to exclude those items not subject to  
15 being charged to capital projects.

16 Q. PLEASE EXPLAIN THE FIRST CHANGE.

17 A. The 9.5 percent of benefits costs capitalized that I utilized in my direct testimony was  
18 based on the composite percentage for the projected FY 2005 test year first developed in  
19 Docket No. 3592. However, the actual percentage of benefits costs capitalized in FY  
20 2005 was 10.67 percent. Hence, the portion of benefits costs recognized as being  
21 charged to capital projects for the FY 2005 test year and, in turn, the rate year in this  
22 proceeding is understated. Therefore, for purposes of developing the Division's updated  
23 recommendation, I have updated the calculation of the benefits capitalized to reflect  
24 actual FY 2005 experience.

1 Q. PLEASE EXPLAIN YOUR SECOND CHANGE TO THE CALCULATION OF  
2 BENEFITS COSTS CHARGED TO CAPITAL PROJECTS.

3 A. Rather than using a composite percentage for all benefits costs, I have recalculated the  
4 ratio of benefits capitalized to total benefits excluding union pension costs from the  
5 denominator. I have also excluded Workers Comp-Old Claims because this cost is  
6 unrelated to current employees who are assigned to capital projects and, thus, would not  
7 be capitalized. I have then applied this revised percentage to all benefits other than union  
8 pension and Workers Comp-Old Claims to determine the level of benefits capitalized for  
9 the rate year.

10 Q. HAVE YOU PREPARED A SCHEDULE SHOWING YOUR ADJUSTMENT  
11 TO REFLECT THE TWO CHANGES THAT YOU HAVE DISCUSSED?

12 A. Yes. Schedule TSC-4A presents my adjustment. As indicated there, I have calculated  
13 the ratio of benefits capitalized to total benefits costs excluding union pension and  
14 Workers Comp-Old Claims based on actual FY 2005 experience to be 12.14 percent. I  
15 have then multiplied this ratio by the test year benefits costs excluding those same two  
16 items included in NBC's filing. This results in benefits capitalized for the test year of  
17 \$532,623. This represents an increase of \$56,331 in the amount of benefits capitalized  
18 compared to the \$476,292 allowance recognized in NBC's filing, thereby reducing  
19 expense by this same amount.

20 Q. HAVE YOU MADE ANY OTHER CHANGES TO REFLECT YOUR  
21 REVISED ANALYSIS OF BENEFITS CAPITALIZED?

22 A. Yes. First, in calculating the increase in union pension costs on Schedule TSC-4B, I have  
23 no longer treated a portion of these costs as being capitalized. As a result, my adjustment  
24 to union pension expense does not differ from the adjustment reflected by Mr. Edge in his  
25 rebuttal testimony.

Second, I have revised my calculation of the appropriate adjustment to health insurance costs on Schedule TSC-5. As indicated there, I have calculated the portion of health insurance premiums charged to construction using my updated ratio of 12.14 percent rather than the original composite ratio of 9.5 percent.

## Health Insurance Costs

Q. DID NBC AGREE WITH YOUR ADJUSTMENT TO HEALTH BENEFITS COSTS?

A. No. NBC agreed with my adjustment to the number of employees for which health benefits are included and with my adjustment to recognize that a portion of health benefits costs are capitalized. NBC also agreed that it was appropriate to recognize the copayments made by some employees. However, NBC did not accept my adjustment to the projected medical insurance premiums for the rate year.

Q. PLEASE SUMMARIZE NBC'S AND THE DIVISION'S POSITIONS WITH REGARD TO THE APPROPRIATE LEVEL OF MEDICAL INSURANCE PREMIUMS.

A. In its initial filing, NBC projected increases of FY 2007 rate year medical insurance premiums of 13.4 percent for PPO coverage and 15.6 percent for HMO coverage compared to FY 2006 premiums. These escalation rates were based on the average annual growth rate for the three years from FY 2003 through FY 2006.

In reviewing the support for NBC's projection, I noted that the three-year growth rate utilized by NBC was heavily influenced by the increases from FY 2003 to FY 2004 of approximately 26 percent for PPO coverage and 30 percent for the HMO plan. More recently, the growth rates for both the PPO and HMO plans had been in the range of 7 to 9 percent per year. Therefore, I proposed to utilize escalation factors of 7.28 percent for

1 PPO coverage and 8.46 percent for HMO coverage based on the average annual growth  
2 rate for the period FY 2004 through FY 2006.

3 In rebuttal, Mr. Edge takes the position that the NBC's original estimate is  
4 supported by NBC's loss claims experience in FY 2006. Because the loss claims ratio in  
5 FY 2006 is higher than in FY 2004 and FY 2005, he argues a larger percentage increase  
6 in premiums can be expected in FY 2007. In addition, Mr. Edge indicates that it is his  
7 understanding that NBC's health insurer has suggested that a 13.43 percent increase is  
8 realistic.

9 Q. WHAT IS YOUR RESPONSE TO MR. EDGE'S ARGUMENTS?

10 A. While the claims loss ratio is one factor that affects insurance premiums, it is not the only  
11 factor. In addition, the FY 2006 experience that Mr. Edge relied upon is only for six  
12 months. Therefore, that data should not be relied upon to conclude that FY 2007  
13 premiums will increase by significantly more than they did in FY 2005 and FY 2006.

14 More importantly, projected medical insurance premiums for FY 2007 are just  
15 than -- projections of the costs that NBC will incur. Rather than simply accepting those  
16 increases as inevitable, NBC should be instituting measures to control those costs. Such  
17 measures might include: increasing deductibles and/or copays for doctor visits; seeking  
18 bids from alternative insurers; utilizing different plans offered by existing insurers; and  
19 increasing the amount that employees must contribute toward premiums.

20 Q. ARE NBC EMPLOYEES CURRENTLY REQUIRED TO PAY A PORTION OF  
21 THEIR HEALTH INSURANCE PREMIUMS?

22 A. Currently, only new employees hired after June 30, 2004 are required to make any  
23 contribution toward medical insurance premiums. Such contributions reflect 0.3 percent  
24 of total medical insurance premiums for the rate year. Employees are not required to pay  
25 any portion of dental or vision premiums.



1 Q. HAVE YOU REVISED THE RATE YEAR MEDICAL INSURANCE  
2 PREMIUMS INCLUDED IN THE DIVISION'S RECOMMENDATION?

3 A. No. For the reasons described above, I have not accepted NBC's proposal to include  
4 increases of 13.43 percent in the premiums for PPO coverage and 15.58 percent for HMO  
5 premiums. Instead, I have continued to reflect increases of 7.28 percent and 8.46 percent  
6 respectively. As shown on my revised Schedule TSC-5, I have modified the amount of  
7 the premiums charged to capital projects to reflect the changes to the capitalization ratio  
8 that I discussed previously. The effect of utilizing the lower escalation factors and  
9 revising the capital ratio is to reduce NBC's rebuttal claim for health benefits costs by  
10 \$142,119.  
11

12 **Electricity Costs**

13 Q. WHAT POSITION DID NBC TAKE WITH REGARD TO THE DIVISION'S  
14 ADJUSTMENTS TO ELECTRICITY COSTS?

15 A. NBC accepted my adjustment to revise the adjustment to eliminate incinerator usage  
16 costs to match the costs included for the rate year based on the rates under NBC's new  
17 supply contract. However, NBC rejected Mr. Stearn's adjustment to reflect Narragansett  
18 Electric d/b/a National Grid's (Narragansett's) actual delivery rates.

19 Q. WHAT RATIONALE DID NBC PROVIDE FOR REJECTING MR. STEARN'S  
20 ADJUSTMENT?

21 A. In his rebuttal, Mr. Edge offered two reasons for NBC's position. First, he notes that in  
22 previous filings, NBC has rounded its calculations to three decimal places and NBC  
23 regards this adjustment as "nitpicking". Second, Mr. Edge argues that NBC's estimates  
24 of electricity usage at Bucklin Point are conservative. Hence, if Mr. Stearn's adjustment

1 is adopted, Mr. Edge believes this estimated kWh usage at Bucklin Point should be  
2 increased.

3 Q. WHAT OBSERVATIONS DO YOU HAVE WITH REGARD TO THESE  
4 ARGUMENTS?

5 A. Mr. Stearns responds in more detail to NBC's arguments. However, I would point out  
6 that NBC has not claimed that Mr. Stearn's analysis is incorrect. In fact, in response to  
7 DIV 4-2, NBC has acknowledged that it has not identified any error in Mr. Stearn's  
8 calculations. That NBC has rounded the rates to three decimal places in the past does not  
9 justify ignoring Mr. Stearn's adjustment to reflect the same five decimal places in  
10 calculating NBC's costs that Narragansett Electric Company uses in billing NBC for  
11 delivery service.

12 I would also note that the 14,150,000 kWh of electricity usage that NBC has  
13 included for Bucklin Point is the amount of electricity usage included in NBC's new  
14 service contract with Aquarion to operate Bucklin Point. NBC has identified this 14.15  
15 million kWh as a cap on the electrical usage that Aquarion can pass through to NBC  
16 unless loadings exceed certain contract levels. Therefore, the argument that if Mr.  
17 Stearn's adjustment is adopted, then the electricity usage included for Bucklin Point  
18 should be increased is spurious.

19 Q. HAVE YOU UPDATED THE DIVISION'S RECOMMENDATION TO  
20 REFLECT THE ADJUSTMENT TO ELECTRICITY COSTS REFLECTED BY  
21 MR. STEARNS IN HIS SURREBUTTAL TESTIMONY?

22 A. Yes. In his surrebuttal, Mr. Stearns updated his adjustment to electricity costs to  
23 recognize the reduction in Narragansett's transition and transmission rates that went into  
24 effect on January 1, 2006. He also updated his calculations to be consistent with NBC's  
25 acceptance of my adjustment to exclude Field's Point incinerator electricity usage. As

1 shown on his Exhibit DS-S-2 and reflected in the summary of Division adjustments on  
2 Schedule TSC-2, Mr. Stearns has recommended a reduction of \$109,786 to the electricity  
3 costs included in NBC's rebuttal filing.  
4

#### 5 **Natural Gas Costs**

6 Q. HAS YOUR CONCERN WITH REGARD TO NBC'S CLAIMED NATURAL  
7 GAS COSTS BEEN RESOLVED?

8 A. Yes. In his rebuttal, Mr. Edge has revised NBC's claimed rate year level of natural gas  
9 costs to reflect the results of a competitive bid process. The winning bidder's price came  
10 in below not only NBC's original estimate, but also the New England Gas Company  
11 GCR rate that I used as a surrogate until the bid process could be conducted.

12 I would note that in preparing its rebuttal position, NBC included a natural gas  
13 supply rate of \$1.153 per therm instead of the \$1.1503 rate per therm specified in the new  
14 contract with Amerada Hess. Correcting this discrepancy results in a small adjustment to  
15 natural gas costs of \$918, as shown on revised Schedule TSC-7.  
16

#### 17 **Hypochlorite Costs**

18 Q. DOES AN ISSUE REMAIN WITH REGARD TO HYPOCHLORITE COSTS?

19 A. No. Based on the explanation provided in rebuttal testimony and in response to DIV 4-  
20 16, I am accepting NBC's claimed rate year allowance for hypochlorite costs.  
21

#### 22 **Summary and Recommendations**

23 Q. PLEASE SUMMARIZE YOUR UPDATED FINDINGS AND  
24 RECOMMENDATIONS.

1 A. As shown on updated Schedule TSC-1, I have determined the NBC's overall revenue  
2 requirement to be \$63,593,526. This represents an increase over revenues at present rates  
3 of \$2,661,755. The revenue increase that I have identified is \$313,937 less than the  
4 revenue increase of \$2,971,946 identified by NBC in its rebuttal filing. This difference is  
5 the result of the adjustments to NBC's claimed revenues and operating expenses that are  
6 summarized on updated Schedule TSC-2.

7 As noted in my direct testimony, I am accepting NBC's proposal that existing  
8 rates other than septage charges, BOD/TSS surcharges, connection permit fees and  
9 discharge permit fees be increased on an across-the-board uniform percentage basis to  
10 recover the NBC's overall cost of service. As shown on updated Schedule TSC-9, I have  
11 calculated the overall percentage increase in rates to be 4.60 percent. Updated Schedule  
12 TSC-10 shows the calculation of proposed rates based on the application of a 4.60  
13 percent increase and provides a proof of revenue at proposed rates.

14 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

15 A. Yes, it does.  
16

**THE NARRAGANSETT** ) **DOCKET NO. 3707**  
**BAY COMMISSION** )

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

# EXETER

**ASSOCIATES, INC.**  
5565 Sterrett Place  
Suite 310  
Columbia, Maryland 21044

THE NARRAGANSETT BAY COMMISSION

Summary of Revenues and Expenses at  
Present and Proposed Rates  
Rate Year Ended June 30, 2007

	Test Year Amount Per NBC	NBC Rate Year Adjustments	Rate Year Amount Per NBC	Division Adjustments	Rate Year at Present Rates	Allowable Rate Increase	Rate Year at Proposed Rates
<b><u>Revenue</u></b>							
User Fee Revenue	\$ 57,808,953	\$ 3,746	\$ 57,812,699	\$ -	\$ 57,808,953	\$ 2,661,755	\$ 60,470,708
Other Service Revenue	2,382,618	-	\$ 2,382,618	-	2,382,618	-	2,382,618
Miscellaneous	740,200	-	\$ 740,200	-	740,200		740,200
Total Revenue	<u>\$ 60,931,771</u>	<u>\$ 3,746</u>	<u>\$ 60,935,517</u>	<u>\$ -</u>	<u>\$ 60,931,771</u>	<u>\$ 2,661,755</u>	<u>\$ 63,593,526</u>
<b><u>Expenses</u></b>							
Personnel Services	15,408,865	740,952	16,149,817	(198,450)	15,951,367	-	15,951,367
Operating Supplies & Expenses	10,535,163	1,883,136	12,418,299	(110,704)	12,307,595	-	12,307,595
Special Services	2,029,039	307,627	2,336,666	-	2,336,666	-	2,336,666
Capital Outlays	1,892,350	-	1,892,350	-	1,892,350	-	1,892,350
Prior Year Debt Coverage	(1,892,350)	-	(1,892,350)	-	(1,892,350)	-	(1,892,350)
Amortization	9,690	-	9,690	-	9,690	-	9,690
Debt Service	25,872,877	-	25,872,877	-	25,872,877	-	25,872,877
Debt Coverage	6,656,397	-	6,656,397	-	6,656,397	-	6,656,397
Total Expenses	<u>\$ 60,512,031</u>	<u>\$ 2,931,715</u>	<u>\$ 63,443,746</u>	<u>\$ (309,154)</u>	<u>\$ 63,134,592</u>	<u>\$ -</u>	<u>\$ 63,134,592</u>
Operating Reserve	<u>419,740</u>	<u>43,976</u>	<u>463,717</u>	<u>(4,783)</u>	<u>458,934</u>	<u>-</u>	<u>458,934</u>
Total Cost of Service	\$ 60,931,771	\$ 2,975,691	\$ 63,907,463	\$ (313,937)	\$ 63,593,526	\$ -	\$ 63,593,526
Revenue Surplus/(Deficiency)	\$ -	\$ (2,971,945)	\$ (2,971,946)	\$ 313,937	\$ (2,661,755)	\$ 2,661,755	\$ -

THE NARRAGANSETT BAY COMMISSION

Summary of Division Adjustments to  
Rate Year Revenues and Expenses at Present Rates  
Rate Year Ended June 30, 2007

Description	Amount	Source
<b><u>Revenue Adjustments</u></b>		
Residential Measured Use Fees	\$ -	Schedule TSC-3
Interest Income	-	
Total Revenue Adjustments	\$ -	
<b><u>Expense Adjustments</u></b>		
Benefits Capitalized	\$ (56,331)	Schedule TSC-4A
Union Pension	-	Schedule TSC-4B
Health Benefits Costs	(142,119)	Schedule TSC-5
Electric Rates	(109,786)	Stearns Exhibit DS-S-2
Incinerator Elecricity Costs	-	Schedule TSC-6
Natural Gas Costs	(918)	Schedule TSC-7
Hypochlorite Costs	-	Schedule TSC-8
Operating Reserve	(4,783)	See Note (1)
Total Expense Adjustments	\$ (313,937)	
Total Division Adjustments to Operating Income	\$ 313,937	

Note:

(1) Adjusted to reflect 1.5% of Division Operating Expenses per Schedule TSC-1.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Interest Income to Include  
Interest on Restricted Accounts at Current Levels  
Rate Year Ended June 30, 2007

Total Interest Income (1)	\$ 244,713
Interest Income per NBC (2)	<u>244,713</u>
Adjustment to Rate Year Interest Income	<u><u>\$ -</u></u>

Notes:

- (1) Reflects acceptance of NBC rate year claim.
- (2) Per Schedule WEE-R1.



THE NARRAGANSETT BAY COMMISSION

Adjustment to Benefits Costs Capitalized  
Rate Year Ended June 30, 2007

FY 2005 Fringe Reimbursement (Benefits Capitalized) (1)	\$ 512,798
FY 2005 Benefits Costs Subject to Capitalization (2)	<u>4,225,531</u>
Ratio of Benefits Capitalized to Eligible Expense	12.14%
Test Year Benefits Subject to Capitalization (3)	<u>4,388,889</u>
Test Year Benefits Capitalized	\$ 532,623
Amount per Company (4)	<u>476,292</u>
Adjustment to Rate Year Expense	<u><u>\$ (56,331)</u></u>

Notes:

(1) Per Schedule WEE-3.

(2) Per Schedule WEE-3, excludes Union Pensions and Workers Comp-Old Claims.

(3) Per Schedule WEE-R1, excludes Union Pensions and Workers Comp-Old Claims.

(4) Per Schedule WEE-R1.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Union Pension Expense  
Rate Year Ended June 30, 2007

Total Rate Year Salaries & Wages and Overtime (1)	\$ 5,047,206
Updated Pension Contribution Rate (2)	<u>18.40%</u>
Rate Year Union Pension Contribution	\$ 928,686
Test Year Expense (1)	<u>574,808</u>
Increase in Union Pension Expense	\$ 353,878
Portion Capitalized (3)	<u>-</u>
Adjustment to Personnel Services Expense	\$ 353,878
Increase Per Company (1)	<u>353,878</u>
Adjustment to Rate Year Expense	<u><u>\$ -</u></u>

Notes:

(1) Per Schedule WEE-5.

(2) Per response to DIV 1-2.

(3) Reflects updated treatment of benefits capitalized as discussed in accompanying surrebuttal testimony.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Health Benefits Costs  
to Reflect Revised Premium and Employee Levels  
Rate Year Ended June 30, 2007

		Current Premium (1)	Escalation Factor (2)	Rate Year Premium	Number of Members (3)	Annual Cost
<u>Medical Insurance</u>						
HMO	Family	\$ 427.38	108.46%	463.54	14	\$ 168,729
	Single	156.41	108.46%	169.64	3	13,232
PPO	Family	491.92	107.28%	527.74	159	2,181,674
	Single	180.02	107.28%	193.12	54	271,145
Waiver		2,500.00	N/A	2,500	16	40,000
Total					246	\$ 2,674,781
<u>Dental Insurance</u>						
	Family			37.61	185	180,904
	Single			13.56	57	20,096
	Waiver			110.00	4	440
Total					246	\$ 201,440
<u>Vision Insurance</u>						
	Family			6.96	189	34,201
	Single			3.24	57	4,802
Total					246	\$ 39,003
Total Rate Year Premiums						\$ 2,915,224
Less: Employee Co-Payments						\$ (8,727)
Net Rate Year Premiums						\$ 2,906,497
Test Year Expense (4)						2,627,709
Increase in Total Premiums						\$ 278,788
Portion Capitalized at 12.14% (6)						(33,833)
Adjustment to Personnel Services Expense						\$ 244,955
Increase Per Company (7)						387,074
Adjustment to Rate Year Expense						\$ (142,119)

Notes:

- (1) Per response to DIV 1-3.
- (2) Reflects 2 year growth rate from FY 2004 to FY 2006 based on response to DIV 1-3.
- (3) Per response to DIV 1-4. Four additional employees (3 family, 1 single) have been added to account for employee vacancies accounted for in Turnover Allowance from Docket No. 3592.
- (4) Per Schedule WEE-5.
- (5) Per response to DIV 1-5.
- (6) Based on ratio of fringe benefits capitalized to eligible fringe benefits per Schedule TSC-11.
- (7) Per Schedule WEE-R3.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Electricity Costs  
to Correct for Removal of Incinerator Consumption  
Rate Year Ended June 30, 2007

	<u>Division Adjusted Electric Rates</u>
Field's Point Incinerator Usage (kWh) (1)	1,983,971
Combined Supply and Delivery Rate (2)	<u>0.09933</u>
Subtotal	\$ 197,068
R.I. Gross Earnings Tax at 4.1666%	<u>8,211</u>
Total Decremental Cost	\$ 205,279
Rate Year Deduction per NBC (3)	<u>205,279</u>
Adjustment to Rate Year Expense	<u>\$ -</u>

Notes:

(1) Per response to Division 1-11.

(2) Adjusted rate per Exhibit 1 of David Stearns.

(3) Per Schedule WEE-R1.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Natural Gas Costs  
Rate Year Ended June 30, 2007

Contracted Supply Rate (1)	\$ 1.1503
Cost per Therm per NBC (2)	1.1530
Adjustment	<u>\$ (0.0027)</u>
Deliveries in Therms (2)	<u>329,744</u>
Adjustment to Cost of Gas	<u>\$ (890)</u>
Total Gas Cost Excluding R.I. Gross Earnings Tax per NBC (2)	\$ 489,200
Less: Division Adjustment	<u>(890)</u>
Adjusted Cost of Gas Before R.I. Gross Earnings Tax	<u>\$ 488,310</u>
R.I. Gross Earnings Tax at 3.0928%	\$ 15,102
R.I. Gross Earnings Tax per NBC (2)	<u>15,130</u>
Adjustment to R.I. Gross Earnings Tax	<u>\$ (28)</u>
Adjustment to Rate Year Expense	<u><u>\$ (918)</u></u>

Notes:

(1) Per response to DIV 4-4.

(2) Per Schedule WEE-R5.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Hypochlorite Costs  
Rate Year Ended June 30, 2007

Amount Per Division (1)	\$	369,705
Amount per Company (2)		<u>369,705</u>
Adjustment to Rate Year Expense	\$	<u><u>-</u></u>

Notes:

(1) Reflects acceptance of NBC rate year claim.

(2) Per Schedule WEE-12.

THE NARRAGANSETT BAY COMMISSION

Calculation of Uniform Percentage Increase in Rates  
Required to Generate Additional Revenues  
Rate Year Ended June 30, 2007

Overall Revenue Increase Required (1)	<u>\$ 2,661,755</u>
Revenues from Services Subject to Increase (2)	
Flat Fees-Residential	\$ 10,648,737
Measured Fees-Residential	20,755,812
Flat Fees-Commercial and Industrial	6,908,120
Measured Fees-Commercial	16,388,850
Measured Fees-Industrial	3,111,180
Discharge Permit Fees	-
Connection Permit Fees	-
BOD/TSS Surcharge	-
Septage Fees	<u>-</u>
Total Revenues from Services Subject to Increase	<u>\$ 57,812,699</u>
Uniform Percentage Increase	<u>4.60%</u>

Notes:

(1) Per Schedule TSC-1.

(2) Per Schedule WEE-13.

THE NARRAGANSETT BAY COMMISSION

Calculation of Proposed Rates and  
Proof of Revenues at Proposed Rates  
Rate Year Ended June 30, 2007

	Current Rate	Percent Increase	Proposed Rate	Billing Units (1)	Revenue at Proposed Rates
<b>Flat Fees</b>					
Residential	\$ 94.38	4.60%	\$ 98.73	112,831	\$ 11,139,805
<b>Commercial &amp; Industrial</b>					
Meter Size					
5/8"	212.00	4.60%	222.00	3,828	849,816
3/4"	317.00	4.60%	332.00	880	292,160
1"	528.00	4.60%	552.00	1,045	576,840
1.5"	1,057.00	4.60%	1,106.00	832	920,192
2"	1,690.00	4.60%	1,768.00	1,799	3,180,632
3"	3,168.00	4.60%	3,314.00	73	241,922
4"	5,280.00	4.60%	5,523.00	51	281,673
6"	10,562.00	4.60%	11,048.00	57	629,736
8"	16,899.00	4.60%	17,677.00	13	229,801
10"	24,292.00	4.60%	25,410.00	1	25,410
Total Commercial & Industrial Flat Fees					\$ 7,228,182
<b>Measured Fees</b>					
Residential	1.942	4.60%	2.031	10,689,623	21,710,624
Commercial	2.813	4.60%	2.943	5,825,507	17,144,467
Industrial	1.810	4.60%	1.893	1,719,119	3,254,292
Total Measured Fees					\$ 42,109,384
<b>Other Revenue</b>					
Discharge Permit Fees	-	4.60%			-
Connection Permit Fees	-	4.60%			-
BOD/TSS Surcharge	-	4.60%			-
Septage Fees	-	4.60%			-
	-				\$ -
<b>Total Service Revenue</b>					\$ 60,477,370
Target Revenue (2)					60,474,454
Variance					\$ 2,916

Notes:

(1) Per Schedule WEE-14

(2) Per Schedule TSC-9. Target equals revenue at present rates plus required increase.